

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Bad Axe Area Fire Protection Association</b>	County <b>Huron</b>
Audit Date <b>12/31/04</b>	Opinion Date <b>6/30/05</b>	Date Accountant Report Submitted to State: <b>7/18/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Brining &amp; Nartker, P.C.</b>			
Street Address <b>64 Westland Drive</b>	City <b>Bad Axe</b>	State <b>MI</b>	ZIP <b>48413</b>
Accountant Signature <i>Brining &amp; Nartker, P.C. by: Douglas P. Brining CPA.</i>		Date <b>7/18/05</b>	

**BAD AXE AREA FIRE PROTECTION ASSOCIATION  
BAD AXE, MICHIGAN**

**FINANCIAL REPORT  
DECEMBER 31, 2004**

# **BAD AXE AREA FIRE PROTECTION ASSOCIATION**

## **TABLE OF CONTENTS**

	<b><u>PAGE NUMBER</u></b>
<b>INDEPENDENT AUDITORS' REPORT</b>	1
<b><u>BASIC FINANCIAL STATEMENTS</u></b>	
GOVERNMENT-WIDE FINANCIAL STATEMENTS:	
Statement of Net Assets	2
Statement of Activities	3
FUND FINANCIAL STATEMENTS:	
Balance Sheet – Governmental Fund	4
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund	5
NOTES TO FINANCIAL STATEMENTS	6 - 9
<b><u>SUPPLEMENTAL INFORMATION</u></b>	
Budgetary Comparison Schedule	10

# BRINING & NARTKER, P.C.

*Certified Public Accountants*

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## INDEPENDENT AUDITORS' REPORT

Bad Axe Area Fire Board  
Bad Axe Area Fire Protection Association  
420 S. Hanselman Street  
Bad Axe, Michigan 48413

We have audited the accompanying basic financial statements of the Bad Axe Area Fire Protection Association, as of December 31, 2004, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Management has not prepared their discussion and analysis information for the Bad Axe Area Fire Protection Association. This discussion is required by U.S. generally accepted accounting principles as supplemental information.

In our opinion, except for the omission of management's discussion and analysis as discussed in the previous paragraph, which results in an incomplete presentation, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Bad Axe Area Fire Protection Association as of December 31, 2004, and the results of its operations for the year then ended, in conformity with U.S. generally accepted accounting principles.

The budgetary comparison information on page 10 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



BRINING & NARTKER, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2005

## **BASIC FINANCIAL STATEMENTS**

**BAD AXE AREA FIRE PROTECTION ASSOCIATION**  
**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2004**

ASSETS:

Current assets:

Cash	\$ 49,547
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Noncurrent assets:

Capital assets (net of accumulated depreciation)	552,391
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TOTAL ASSETS

601,938
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LIABILITIES:

Current liabilities:

Payroll withholdings payable	4,035
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Noncurrent liabilities:

Notes payable due within one year	18,097
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TOTAL LIABILITIES

22,132
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NET ASSETS:

Investment in capital fixed assets

net of related debt	534,294
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Reserved for equipment purchases

4,100
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Unrestricted

41,412
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TOTAL NET ASSETS

\$ 579,806
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The accompanying notes are an integral part of the financial statements.

**BAD AXE AREA FIRE PROTECTION ASSOCIATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**PROGRAM EXPENSES:**

Public Safety

Personal services	\$ 82,550
Supplies	9,990
Professional and contracted services	2,750
Communications	1,611
Community promotion	102
Printing and publishing	34
Utilities	4,263
Repairs	11,389
Insurance	24,898
Other	1,399
Depreciation expense	64,129
Interest expense	3,108

TOTAL PROGRAM EXPENSES	<u>206,223</u>
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**PROGRAM REVENUES:**

Charges for services	23,555
Operating contributions	221,337

TOTAL PROGRAM REVENUES	<u>244,892</u>
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NET PROGRAM REVENUE	<u>38,669</u>
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**GENERAL REVENUES:**

Interest	565
Other	4,749

TOTAL GENERAL REVENUES	<u>5,314</u>
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CHANGE IN NET ASSETS	<u>43,983</u>
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NET ASSETS - BEGINNING OF YEAR	535,823
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NET ASSETS - END OF YEAR	<u><u>\$ 579,806</u></u>
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The accompanying notes are an integral part of the financial statements.

**BAD AXE AREA FIRE PROTECTION ASSOCIATION  
GOVERNMENTAL FUND BALANCE SHEET  
DECEMBER 31, 2004**

	<u>GENERAL FUND</u>
<u>ASSETS</u>	
Cash	\$ 49,547
TOTAL ASSETS	<u>\$ 49,547</u>
<u>LIABILITIES AND FUND BALANCE</u>	
LIABILITIES:	
Payroll withholdings payable	\$ 4,035
TOTAL LIABILITIES	<u>4,035</u>
FUND BALANCE:	
Reserved	4,100
Unreserved	41,412
TOTAL FUND BALANCE	<u>45,512</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 49,547</u>

**BAD AXE AREA FIRE PROTECTION ASSOCIATION  
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE TO  
THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

Total governmental fund balance	\$ 45,512
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	552,391
Other long-term liabilities are not due in the current period and therefore are not reported in the funds.	(18,097)
Net assets of governmental activities	<u>\$ 579,806</u>

The accompanying notes are an integral part of the financial statements.

**BAD AXE AREA FIRE PROTECTION ASSOCIATION  
GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	GENERAL FUND
REVENUES:	
Contribution from City of Bad Axe	\$ 89,863
Contribution from Colfax Township	72,886
Contribution from Verona Township	58,588
Response fees	23,555
Interest	565
Other	4,749
TOTAL REVENUES	<u>250,206</u>
EXPENDITURES:	
Current	
Public Safety	138,986
Capital outlay	28,069
Debt service	82,680
TOTAL EXPENDITURES	<u>249,735</u>
NET CHANGE IN FUND BALANCE	<u>471</u>
FUND BALANCE - JANUARY 1, 2004	45,041
FUND BALANCE - DECEMBER 31, 2004	<u><u>\$ 45,512</u></u>

**BAD AXE AREA FIRE PROTECTION ASSOCIATION  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

Net change in fund balance	\$ 471
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities.	(36,060)
Repayment of notes payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets.	79,572
Change in net assets of governmental activities.	<u><u>\$ 43,983</u></u>

The accompanying notes are an integral part of the financial statements.

**BAD AXE AREA FIRE PROTECTION ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Bad Axe Area Fire Protection Association conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Bad Axe Area Fire Protection Association.

Description of Association Operations

The Association was formed pursuant to the terms of an interlocal agreement dated September 7, 1989. The Association began operations in January 1990 and its purpose is to provide fire protection to the residents and property owners of the constituent units which include the City of Bad Axe, Colfax Township and Verona Township in Huron County, Michigan.

The Association operates under an appointed board consisting of representatives from each constituent unit. All representatives are appointed by their respective governing bodies by resolution and serve following appointment, until a successor is appointed. A board member is eligible for reappointment at the expiration of his (or her) term of office, and must be a resident of the constituent unit which he (or she) represents. A board member shall not be an employee of any fire department of the Association.

Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14, the definition of the reporting entity is based primarily on the premise of financial accountability. The Association is a primary government and is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it. These types of organizations are deemed component units.

Based on the provisions of GASB 14, there are no organizations that are deemed to be component units of the Association.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (i.e., statement of net assets and statement of activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Depreciation

Capital outlays are recorded as expenditures of the General Fund and as assets in the government-wide financial statements. Depreciation is recorded on capital assets on a government-wide basis using the straight-line method using the following estimated useful lives:

Buildings	10 - 40 years
Equipment	5 - 20 years

(Continued)

**BAD AXE AREA FIRE PROTECTION ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(CONTINUED)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Accounting Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE 2 – BUDGET INFORMATION**

The budget and all amendments thereto, for the General Fund have been shown at the line item level. The approved budget was adopted at the fund level on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at year-end. The General Fund does not utilize encumbrance accounting.

Excess of Expenditures Over Appropriations in Budgetary Funds

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended December 31, 2004, actual expenditures exceeded budgeted expenditures in the amount of \$67,313.

**NOTE 3 - CASH**

The Association's cash account consists of an interest bearing checking account. As of December 31, 2004, the carrying amount and the bank balance of the account amounted to \$49,547 and \$59,838, respectively. The amount is fully covered by federal depository insurance.

**NOTE 4 - CAPITAL ASSETS**

Capital assets activity for the current year was as follows:

	Balance January 1, <u>2004</u>	<u>Increases</u>	<u>Decreases</u>	Balance December 31, <u>2004</u>
Capital Assets Being Depreciated				
Buildings	\$ 216,434	\$ 21,293	\$ -	\$ 237,727
Equipment	819,025	6,776	-	825,801
	<u>1,035,459</u>	<u>28,069</u>	<u>-</u>	<u>1,063,528</u>
Less Accumulated Depreciation for				
Buildings	52,520	7,439	-	59,959
Equipment	394,488	56,690	-	451,178
	<u>447,008</u>	<u>64,129</u>	<u>-</u>	<u>511,137</u>
Governmental Activity Net Capital Assets Being Depreciated	<u>\$ 588,451</u>	<u>\$ (36,060)</u>	<u>\$ -</u>	<u>\$ 552,391</u>

**BAD AXE AREA FIRE PROTECTION ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(CONTINUED)**

**NOTE 5 – LONG-TERM DEBT**

Long-term debt consists of the following at December 31, 2004:

Note payable - Signature Bank, payable in quarterly installments of \$12,025 including interest at the rate of 4.585%, due April 2005, secured by a fire truck. This loan meets the requirements of MCL 141.451.

\$ 18,097

Maturities for the years succeeding December 31, 2004 are as follows:

	<u>PRINCIPLE</u>	<u>INTEREST</u>	<u>TOTAL</u>
2005	<u>\$ 18,097</u>	<u>\$ 280</u>	<u>\$ 18,377</u>

Changes in long-term debt for the year ended December 31, 2004 were as follows:

	BALANCE JANUARY 1, 2004	<u>ADDITIONS</u>	<u>PAYMENTS</u>	BALANCE DECEMBER 31, 2004
Notes payable:				
Signature Bank	\$ 64,037	\$ -	\$ 45,940	\$ 18,097
Independent Bank	33,633	-	33,633	-
Totals	<u>\$ 97,670</u>	<u>\$ -</u>	<u>\$ 79,573</u>	<u>\$ 18,097</u>

**NOTE 6 - RESERVED FUND BALANCE**

Reserved fund balance consists of a cash residual resulting from the receipt of memorials and fundraisers to be used for the purchase of equipment. The balance at December 31, 2004 is as follows:

Balance January 1, 2004	\$ 6,010
Memorials and fundraisers	2,590
Purchase of equipment	(4,500)
Balance, December 31, 2004	<u>\$ 4,100</u>

**NOTE 7 - CONTRIBUTIONS**

In the event that it is necessary to finance all or any part of the operating fund or capital expenditures of the Association by contribution, the contribution to be made to the Association by each constituent unit shall be equal to that percentage or proportion which each constituent bears to the whole of the Association based upon the state equalized value of all property. State equalized values shall be based upon figures from the most recently completed calendar year. To be binding upon a constituent unit, any contribution must be authorized by resolution of the governing body of that constituent unit. The failure of the governing body of any constituent unit to authorize its contribution to the Association and/or to pay the same in full to the Association within thirty (30) days of the commencement of the Association's fiscal year shall operate as an immediate withdrawal of that constituent unit from the Association.

Contributions for the year ended December 31, 2004 were \$89,863, \$72,886 and \$58,588 for the City of Bad Axe, the Township of Colfax and the Township of Verona, respectively.

**BAD AXE AREA FIRE PROTECTION ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(CONTINUED)**

**NOTE 8 – RETIREMENT PLAN**

The Association offers a Savings Incentive Match Plan for Employees (SIMPLE) to the full time employee. The eligible employee determines the amount of his elective deferral and the Association matches that deferral up to 3% of compensation. The 2004 employer contribution amounted to \$1,170.

## **SUPPLEMENTAL INFORMATION**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUES:				
Contribution from City of Bad Axe	\$ 89,863	\$ 89,863	\$ 89,863	\$ -
Contribution from Colfax Township	72,886	72,886	72,886	-
Contribution from Verona Township	58,588	58,588	58,588	-
Response fees	8,600	8,600	23,555	14,955
Interest	500	500	565	65
Donations	-	-	3,590	3,590
Miscellaneous	-	-	1,159	1,159
<b>TOTAL REVENUES</b>	<u>230,437</u>	<u>230,437</u>	<u>250,206</u>	<u>19,769</u>
EXPENDITURES:				
Audit services	1,020	1,070	1,065	5
Community promotion	450	450	102	348
Contractual service	600	600	355	245
Dues and subscriptions	700	700	565	135
Education and training	1,000	1,000	666	334
Equipment repair	1,150	1,150	913	237
Expendable equipment	14,000	11,100	9,906	1,194
Gas and oil	2,390	2,390	1,421	969
Insurance - general	19,223	21,473	20,774	699
Insurance - vehicle	9,000	9,161	9,160	1
Insurance - workers compensation	4,600	6,039	6,004	35
Legal service	2,500	2,500	1,330	1,170
Maintenance	7,000	7,000	6,596	404
Office supplies	1,000	1,000	778	222
Operating supplies	4,300	4,300	4,063	237
Payroll expenses	76,250	76,250	71,510	4,740
Printing and publishing	250	250	34	216
Radio equipment	2,000	1,000	187	813
Radio repair	400	400	333	67
Travel and meals	900	900	168	732
Utilities	8,000	8,000	5,686	2,314
Vehicle maintenance	5,800	5,800	4,649	1,151
Water	120	120	31	89
Capital outlay	-	-	20,759	(20,759)
Debt service	-	-	82,680	(82,680)
<b>TOTAL EXPENDITURES</b>	<u>162,653</u>	<u>162,653</u>	<u>249,735</u>	<u>(87,082)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>67,784</u>	<u>67,784</u>	<u>471</u>	<u>(67,313)</u>
<b>FUND BALANCE - JANUARY 1, 2004</b>	45,041	45,041	45,041	-
<b>FUND BALANCE - DECEMBER 31, 2004</b>	<u>\$ 112,825</u>	<u>\$ 112,825</u>	<u>\$ 45,512</u>	<u>\$ (67,313)</u>

# BRINING & NARTKER, P.C.

*Certified Public Accountants*

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June 30, 2005

Bad Axe Area Fire Board  
Bad Axe Area Fire Protection Association  
Bad Axe, MI 48413

The following comments relate to situations brought to our attention during the course of our recent audit of the financial statements of the Bad Axe Area Fire Protection Association for the year ended December 31, 2004, and are submitted for your evaluation and consideration. We would like to emphasize that, since our audit was conducted for the purpose of expressing an opinion on the aforementioned financial statements, these comments are not necessarily all inclusive.

## Capitalization Policy

The process of implementing GASB Statement No. 34 requires a conversion from the fund financial statements to the government-wide financial statements. Capital assets are one of the items for which the accounting treatment differs between these two types of statements. For purposes of the government-wide statements, capital assets, which include buildings and equipment, are defined as being tangible in nature with an estimated useful life of two or more years and an original cost over a specified dollar threshold (e.g. \$1,000 or \$2,000). The cost of these capital assets is recorded in the government-wide statement of net assets and depreciated over the estimated useful life of the asset whereas the cost is treated as a current year expenditure for purposes of the fund financial statements.

We recommend that the Board adopt a capitalization policy that defines the criteria for recording a capital asset. This policy should include a dollar threshold over which the cost of an asset would be capitalized and the estimated useful lives for the various types of assets owned/used by the Association.

We wish to take this opportunity to thank the officials with whom we have worked for the cooperation we received throughout our audit. As always, our firm will be happy to assist in implementing any recommendations approved by the Board.

*Brining & Nartker, P.C.*

Brining & Nartker, P.C.  
Certified Public Accountants